

FRANCIS MARION UNIVERSITY

Independent Auditors' Report

**Financial Statements and Schedules
For the Year Ended June 30, 2016**

FRANCIS MARION UNIVERSITY

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Independent Auditors' Report

To the Honorable Nikki R. Haley,
Governor of the State of South Carolina
And the Board of Trustees of
Francis Marion University
Florence, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit (Francis Marion University Development Foundation) of Francis Marion University, a discretely presented component unit of the State of South Carolina, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents. We did not audit the financial statements of Francis Marion University Education Foundation (a discretely presented component unit). The Francis Marion University Education Foundation reflects 100% of total assets, 100% of net assets, and 100% of total revenues of the discretely presented component unit.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Francis Marion University Education Foundation, which represent 100% of total assets, 100% of net assets, and 100% of total revenue of the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Francis Marion University Education Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of Francis Marion University Education Foundation and Francis Marion University Development Foundation were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and discretely presented component units of Francis Marion University as of June 30, 2016, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of the South Carolina Retirement System (SCRS) and the Police Officers Retirement System (PORS) net pension liability, and the schedule of University contributions to the South Carolina Retirement System (SCRS) and the Police Officers Retirement System (PORS) as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

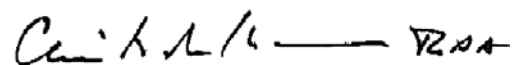
Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Francis Marion University's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of *Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles*, and Audit Requirements for Federal Awards, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2016, on our consideration of Francis Marion University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "Cynthia L. Gaffney".

Gaffney, SC
October 24, 2016

FRANCIS MARION UNIVERSITY

Management's Discussion and Analysis

Overview of the Financial Statements and Financial Analysis

The following discussion and analysis provides an overview of the financial position and activities of Francis Marion University for the year ended June 30, 2016 with selected comparative information for the year ended June 30, 2015. This discussion is presented along with financial statements and related footnote disclosures of the University and its component units. The discussion and analysis is limited to the University and its focus is on current activities, resulting changes, and current known facts and should be read in conjunction with the financial statements and footnotes. Separately issued financial statements of the component units are available from management of the component units. The report includes three financial statements: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. These financial statements are prepared in accordance with Government Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the University as a whole.

The University changed its accounting policies with the implementation of new accounting standards during year ended June 30, 2015. Changes in accounting policies for pensions are designed to improve transparency regarding pension obligations by requiring recognition of a liability equal to the net pension liability for the University's defined benefit pension plan. This standard requires recognition of pension expense using a systematic method designed to match the cost of pension benefits with service period for eligible employees. These accounting policy changes do not impact the University's funding requirements for the pension plan.

Statement of Net Position

The Statement of Net Position presents the assets, liabilities, and net position of the University as of the end of the fiscal year. The Statement of Net Position is a point of time financial statement and its purpose is to present to the readers of the financial statements a fiscal snapshot of Francis Marion University. The Statement of Net Position presents end-of-year data concerning assets (current and noncurrent), deferred outflows, liabilities (current and noncurrent), deferred inflows. The difference between assets, deferred outflows, liabilities and deferred inflows is net position. Current assets are those which are reasonably expected to be realized in cash or sold or consumed within one year. Current liabilities are obligations whose liquidation is expected to require the use of current assets.

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors, investors, and lending institutions. Finally, the Statement of Net Position provides a picture of the net assets and their availability for expenditure by the University.

Net position is divided into three major categories. The first category, net investment in capital assets, provides the equity in property, plant, and equipment owned by the University. The next category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the University but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted assets are available to the institution for any lawful purpose of the University.

Condensed Statement of Net Position

| | 2016 | 2015 | Increase/ (Decrease) | Percent Change |
|---|----------------------|----------------------|-------------------------|-------------------|
| Assets: | | | | |
| Current assets | \$ 13,892,409 | \$ 18,735,384 | \$ (4,842,975) | (25.85%) |
| Capital assets, net of accumulated depreciation | 81,089,618 | 69,397,329 | 11,692,289 | 16.85% |
| Other noncurrent assets | 5,167,721 | 8,644,902 | (3,477,181) | (40.22%) |
| Total assets | 100,149,748 | 96,777,615 | 3,372,133 | 3.48% |
| Deferred outflows of resources | 4,119,754 | 4,059,588 | 60,166 | 1.48% |
| Liabilities: | | | | |
| Current liabilities | 4,920,766 | 5,152,304 | (231,538) | (4.49%) |
| Noncurrent liabilities | 62,307,603 | 58,038,657 | 4,268,946 | 7.36% |
| Total liabilities | 67,228,369 | 63,190,961 | 4,037,408 | 6.39% |
| Deferred inflows of resources | 99,705 | 3,983,178 | (3,883,473) | (97.50%) |
| Net position: | | | | |
| Net investment in capital assets | 74,287,067 | 62,244,980 | 12,042,087 | 19.35% |
| Restricted - nonexpendable | 200,000 | 200,000 | - | 0.00% |
| Restricted - expendable | 3,872,713 | 13,746,912 | (9,874,199) | (71.83%) |
| Unrestricted | (41,418,352) | (42,528,828) | 1,110,476 | (2.61%) |
| Total net position | \$ 36,941,428 | \$ 33,663,064 | \$ 3,278,364 | 9.74% |

The Statement of Net Position shows an increase in assets and liabilities resulting in an overall increase in net position. Significant changes on the Statement of Net Position are as follows:

- Total assets of the University increased by \$3.4 million.
- The decrease in current assets is largely due to a \$1.75 million reduction in a capital reserve fund receivable and a \$2.5 million reduction in a contribution receivable, both attributable to the Center for Health Sciences building.
- The increase in capital assets results from a \$14 million increase in construction in progress for the Center for Health Sciences building which is offset by current year depreciation.
- Other noncurrent assets decreased \$3.5 million mainly due of a reduction of restricted cash held for the construction of the Center for Health Sciences building.
- Noncurrent liabilities increased by \$4.3 million and deferred inflows of resources decreased by \$3.9 million. These changes are largely

attributable to a change in the University's proportionate share of the South Carolina Retirement System and the Police Officers Retirement System pension liability.

- Total net position increased by \$3.3 million. A \$14 million increase in construction in progress is offset by current year depreciation, resulting in a \$12 million increase in net investment in capital assets. A decrease in restricted cash and accounts and contribution receivables due to the Center for Health Sciences construction project results in a decrease in restricted – expendable net assets.

Statement of Revenues, Expenses and Changes in Net Position

Changes in total net assets as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of the statement is to present the revenues received by the University, both operating and nonoperating, and the expenses paid by the University, operating and nonoperating, and any

other revenue, expenses, gains, and losses received or spent by the University. Operating revenues are those that are earned in exchange for goods or services provided while carrying out the mission of the University. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues. Nonoperating revenues are revenues received for which goods and services are not provided. For example, state appropriations are nonoperating because they are provided by the Legislature to the University without the Legislature directly receiving commensurate goods and services for those revenues.

The Statement of Revenues, Expenses, and Changes in Net Position is prepared on the accrual basis of accounting. Accrual accounting attempts to record the financial effects of transactions on an entity in the period in which those transactions occur rather than in the period in which cash is received or paid.

Revenues are recognized when services or goods are provided. Expenses are recognized when resources are utilized in order to produce goods or services.

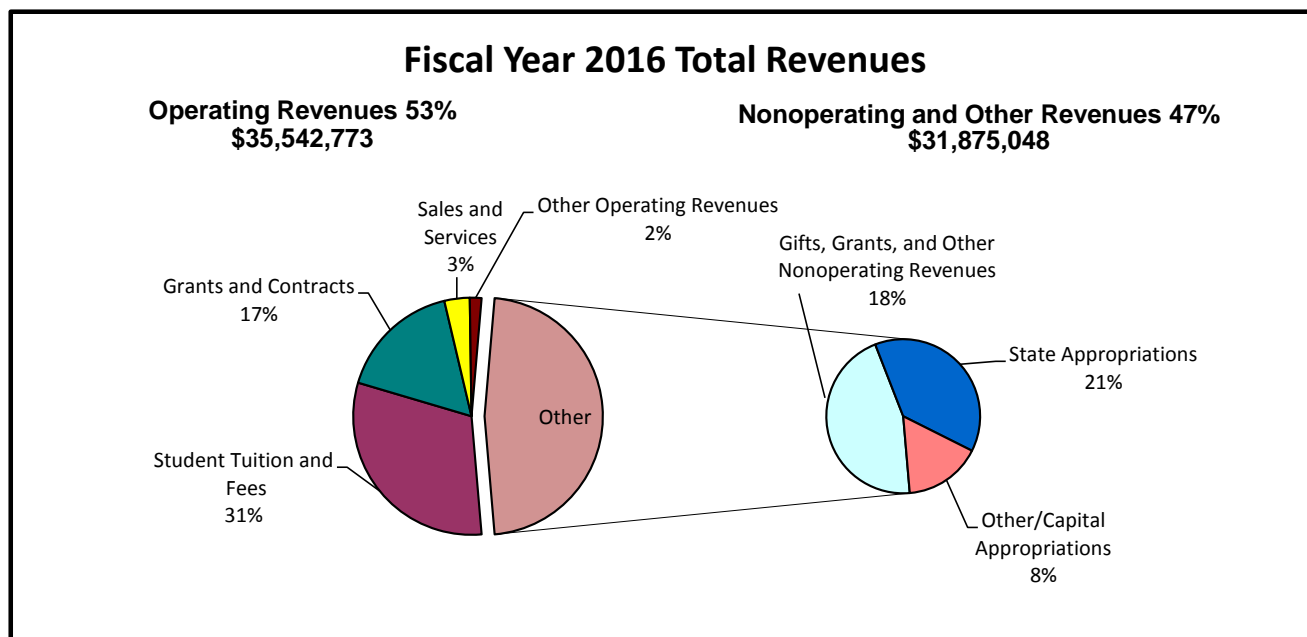
Condensed Statement of Revenues, Expenses, and Changes in Net Position

| | 2016 | 2015 | Increase/ (Decrease) | Percent Change |
|--|----------------------|----------------------|-------------------------|-------------------|
| Revenues: | | | | |
| Student tuition and fees | \$ 20,850,373 | \$ 20,126,967 | \$ 723,406 | 3.59% |
| Grants and contracts | 11,280,579 | 10,603,289 | 677,290 | 6.39% |
| Sales and services | 2,335,461 | 1,375,058 | 960,403 | 69.84% |
| Other operating revenues | 1,076,360 | 1,003,998 | 72,362 | 7.21% |
| Total operating revenues | 35,542,773 | 33,109,312 | 2,433,461 | 7.35% |
| State appropriations | 14,481,679 | 13,702,659 | 779,020 | 5.69% |
| Grants | 9,330,867 | 9,457,264 | (126,397) | (1.34%) |
| Gifts | 2,486,185 | 2,256,815 | 229,370 | 10.16% |
| Investment income (loss) | 73,163 | 48,442 | 24,721 | 51.03% |
| Other nonoperating revenues | 321,084 | 316,791 | 4,293 | 1.36% |
| Total nonoperating revenues | 26,692,978 | 25,781,971 | 911,007 | 3.53% |
| Total revenues | 62,235,751 | 58,891,283 | 3,344,468 | 5.68% |
| Expenses: | | | | |
| Compensation and employee benefits | 42,098,821 | 41,845,781 | 253,040 | 0.60% |
| Services and supplies | 12,539,772 | 10,707,257 | 1,832,515 | 17.11% |
| Utilities | 2,183,177 | 2,304,828 | (121,651) | (5.28%) |
| Depreciation | 3,069,443 | 3,185,483 | (116,040) | (3.64%) |
| Scholarships | 3,900,157 | 4,067,996 | (167,839) | (4.13%) |
| Total operating expenses | 63,791,370 | 62,111,345 | 1,680,025 | 2.70% |
| Interest expense | 348,087 | 365,483 | (17,396) | (4.76%) |
| Total nonoperating expenses | 348,087 | 365,483 | (17,396) | (4.76%) |
| Total expenses | 64,139,457 | 62,476,828 | 1,662,629 | 2.66% |
| Income (loss) before other revenues, expenses, gains, losses, and transfers | (1,903,706) | (3,585,545) | 1,681,839 | (46.91%) |
| State capital appropriations | 1,676,276 | 3,538,231 | (1,861,955) | (52.62%) |
| Capital gifts | 3,505,794 | 1,048,683 | 2,457,111 | 234.30% |
| Increase (decrease) in net position | 3,278,364 | 1,001,369 | 2,276,995 | 227.39% |
| Net position - beginning of year, as previously reported | 33,663,064 | 78,920,708 | (45,257,644) | (57.35%) |
| Cumulative effect of accounting and reporting entity changes | - | (46,259,013) | 46,259,013 | (100.00%) |
| Net position - beginning of year, as restated | 33,663,064 | 32,661,695 | 1,001,369 | 3.07% |
| Net position - end of year | \$ 36,941,428 | \$ 33,663,064 | \$ 3,278,364 | 9.74% |

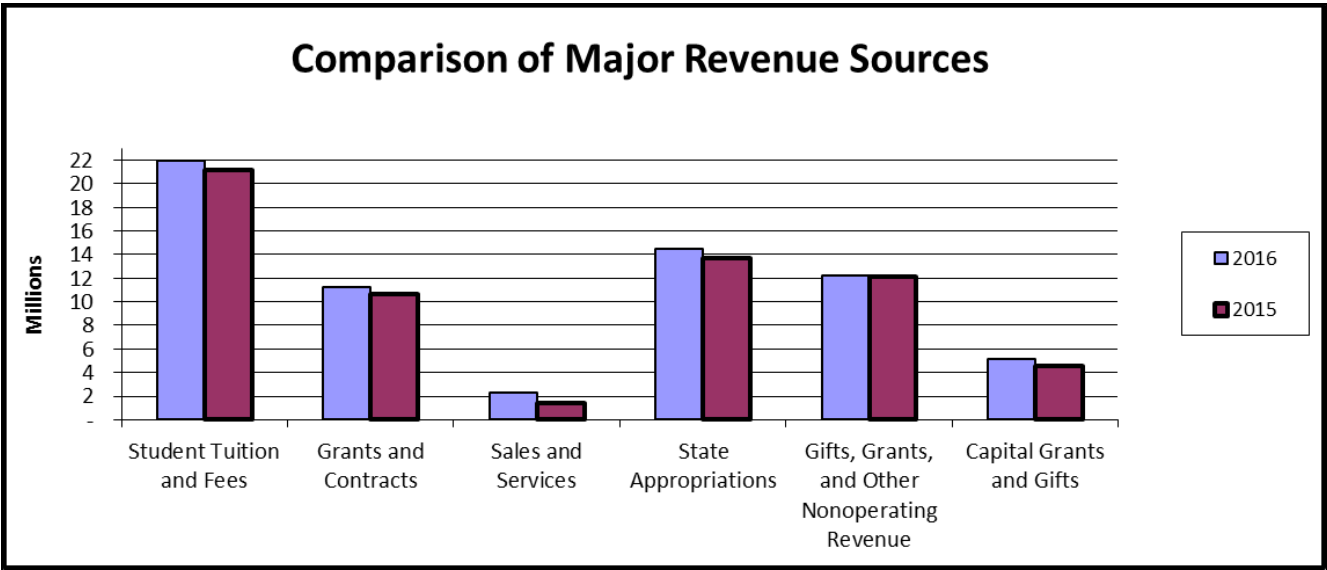
The Statement of Revenues, Expenses and Changes in Net Position reflects an increase in net assets for the year. Some highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Position are as follows:

- The University experienced a \$2.4 million increase in operating revenues.
- Student tuition and fees increased \$723 thousand due to a slight fee increase, the start of the new industrial engineering program, and an increase in summer school enrollment.
- The \$677 thousand increase in grants and contracts results from an increase in state grants.
- The increase in sales and services is mainly attributable to an auxiliary contract change that results in an increase in revenue as well as an increase in expenses.
- The increase in nonoperating revenue of approximately \$911 thousand is primarily due to the increase in state appropriations.
- The increase in capital revenues is due to a capital gift for the Medical and Health Sciences Complex that is currently under construction in downtown Florence.
- The cumulative effect of accounting and reporting entity changes is due to the accounting changes for pension liabilities.

The following graph presents the sources of revenue used to fund the University for the year.

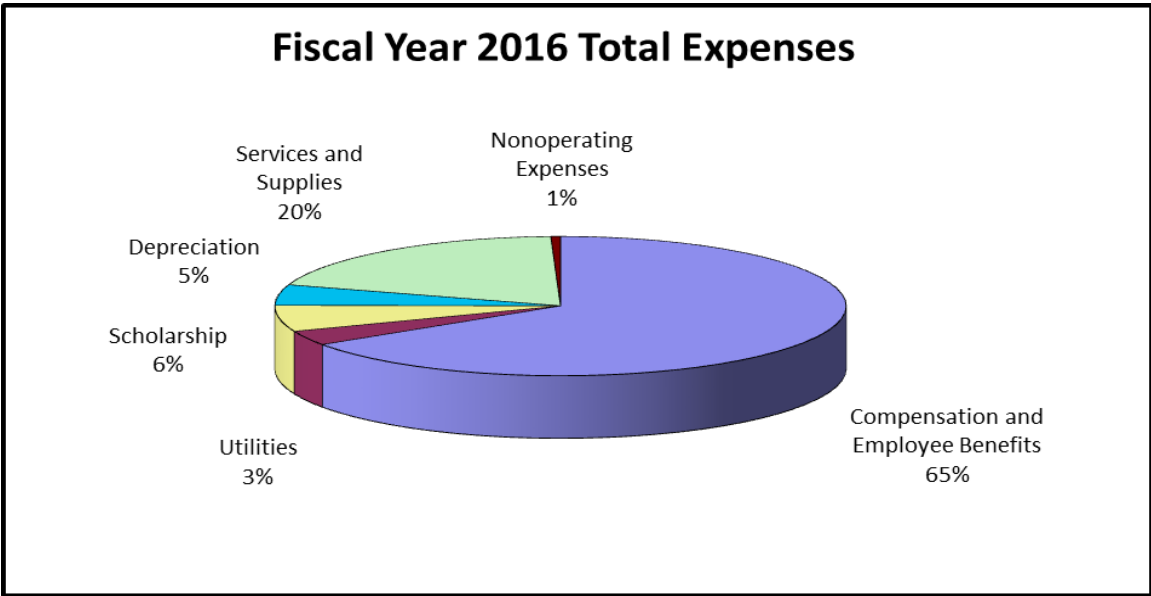


The graph below, comparing 2016 revenue sources to 2015, illustrates the changes in major revenue sources.

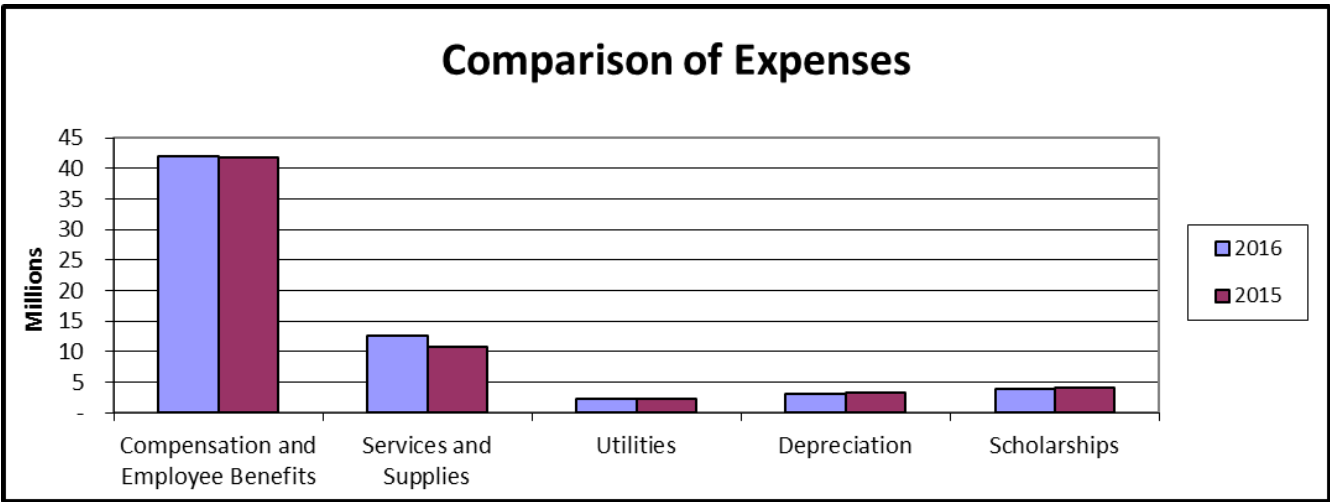


- Total operating expenses have increased \$1.7 million.
- The increase in supplies and contractual services is due to an increase in non-capital deferred maintenance contracts and a change in an auxiliary vendor contract where the University retains additional revenues as well as associated expenses.

The following graph displays expense categories.



The graph below compares 2016 expenses to 2015 and illustrates the changes in major expense types.



Statement of Cash Flows

The final statement presented by Francis Marion University is the Statement of Cash Flows. The Statement of Cash Flows gives detailed information about the cash activity of the University during the year. The statement is divided into five parts. The first section presents operating cash flows and shows the net cash used by the operating activities

of the University. The second section reflects cash flows from noncapital financing activities and displays the cash received and spent for noncapital financing purposes. The third section exhibits cash flows from capital and related financing activities and shows cash used for the acquisition and construction of capital and related items. The fourth part gives the cash flows from investing activities and shows the purchases, proceeds, and interest

received from investing activities. The fifth section reconciles the net cash used to the operating income or loss displayed on the Statement of Revenues, Expenses, and Changes in Net Position.

Capital Assets and Debt

Total capital assets net of depreciation for the University is \$81,089,618 at June 30, 2016. Construction in progress is \$16,419,703 which is primarily for the Center for Health Sciences building.

Debt on capital assets is \$6,802,551. Details of the bonds and capital leases are available in notes 10, 11, and 12.

The \$15.7 million Center for Health Sciences is a 52,000 square foot, three-story addition to the University that was completed in July 2016. The facility houses FMU's Nurse Practitioner Program, FMU's Physician Assistant Program and third and fourth year medical students from the University of South Carolina and their instructors. No debt was incurred in the construction of this building as funding was mostly by donations from the Drs. Bruce and Lee Foundation and the City of Florence.

In the current fiscal year, the University received \$1,500,000 of Capital Appropriations from the State for the purchase of an enterprise resource planning system (ERP). Final selection of the vendor is nearing completion and implementation is planned over the next two years.

Economic Outlook

As one of the state-supported universities of South Carolina, Francis Marion receives appropriations from the state and those appropriations were increased slightly this year and enrollment has been sufficient. The University's management will continue to monitor economic factors and make adjustments if needed to insure the University's overall financial position is sound.

The University's current financial position is stable and current appropriations and tuition are adequate to fund the operations for the ensuing year. The University does not plan to materially reduce operations or curtail any planned improvements.

Francis Marion University
Statement of Net Position
June 30, 2016

ASSETS

Current Assets

| | |
|--|-------------------|
| Cash and cash equivalents | \$ 9,004,500 |
| Accounts receivable (net of allowance for doubtful accounts \$483,280) | 1,503,654 |
| Contributions receivable, net | 2,501,275 |
| Accrued interest receivable | 14,847 |
| Due from Francis Marion University Education Foundation | 14,985 |
| Prepaid expenses | 853,148 |
| Total current assets | 13,892,409 |

Noncurrent Assets

| | |
|--|--------------------|
| Restricted cash and cash equivalents | 3,308,697 |
| Notes receivable - due from Francis Marion University Education Foundation | 237,723 |
| Perkins loans receivable | 1,621,301 |
| Capital assets, net of accumulated depreciation | 81,089,618 |
| Total noncurrent assets | 86,257,339 |
| Total assets | 100,149,748 |

| | |
|---|------------------|
| DEFERRED OUTFLOWS OF RESOURCES | 4,119,754 |
|---|------------------|

LIABILITIES

Current Liabilities

| | |
|--|------------------|
| Accounts and retainages payable | 973,814 |
| Accrued payroll and related liabilities | 217,355 |
| Accrued compensated absences - current portion | 1,463,115 |
| Accrued interest payable | 28,096 |
| Due To Francis Marion University Development Foundation | 312,665 |
| Due To Francis Marion University Education Foundation | 5,205 |
| Unearned revenues | 691,454 |
| Capital leases payable - current portion | 13,339 |
| Bonds payable - current portion | 345,000 |
| Deposits held for others | 210,420 |
| Deposits held for Francis Marion University Development Foundation | 660,303 |
| Total current liabilities | 4,920,766 |

Noncurrent Liabilities

| | |
|---|-------------------|
| Accrued compensated absences | 779,234 |
| Unearned revenues | 1,852,044 |
| Capital leases payable | 19,212 |
| Bonds payable | 6,425,000 |
| Perkins liability | 1,512,402 |
| Pension liability | 51,719,711 |
| Total noncurrent liabilities | 62,307,603 |
| Total liabilities | 67,228,369 |

| | |
|--|---------------|
| DEFERRED INFLOWS OF RESOURCES | 99,705 |
|--|---------------|

NET POSITION

| | |
|--|----------------------|
| Net Investment in capitalized assets | 74,287,067 |
| Restricted for | |
| Nonexpendable | |
| Scholarships and fellowships | 200,000 |
| Expendable | |
| Scholarships and fellowships | 123,327 |
| Instructional department uses | 385,524 |
| Loans | 444,154 |
| Capital projects | 2,894,261 |
| Other | 25,447 |
| Unrestricted | (41,418,352) |
| Total net position | \$ 36,941,428 |

The accompanying notes are an integral part of the financial statements.

Francis Marion University
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2016

OPERATING REVENUES

| | |
|--|-------------------|
| Student tuition and fees (net of scholarship allowances of \$15,939,423) | \$ 20,850,373 |
| (of which \$670,239 of revenues are pledged for Athletic Facility Revenue Bonds) | |
| Federal grants and contracts | 2,481,509 |
| State grants and contracts | 8,369,091 |
| Local grants and contracts | 244,000 |
| Non-governmental grants and contracts | 185,979 |
| Sales and services of educational and other activities | 519,070 |
| Sales and services of auxiliary enterprises | 1,816,391 |
| Other operating revenues | 1,076,360 |
| Total operating revenues | 35,542,773 |

OPERATING EXPENSES

| | |
|---------------------------------------|---------------------|
| Salaries and wages | 30,940,670 |
| Benefits | 11,158,151 |
| Supplies and other services | 12,539,772 |
| Utilities | 2,183,177 |
| Scholarships | 3,900,157 |
| Depreciation | 3,069,443 |
| Total operating expenses | 63,791,370 |
| Operating income (loss) | (28,248,597) |

NONOPERATING REVENUES (EXPENSES)

| | |
|--|--------------------|
| State appropriations | 14,481,679 |
| Federal grants | 9,330,867 |
| Gifts | 2,486,185 |
| Investment income | 73,163 |
| Interest and other fees on capital asset related debt | (348,087) |
| Other nonoperating revenues (expense) | 321,084 |
| Net nonoperating revenue | 26,344,891 |
| Income (loss) before other revenues, expenses, gains, losses, and transfers | (1,903,706) |
| State capital appropriations | 1,676,276 |
| Capital gifts | 3,505,794 |
| The accompanying notes are an integral part of the financial statements. | |
| Increase (decrease) in net position | 3,278,364 |

| | |
|---|----------------------|
| Net position - beginning of year | 33,663,064 |
| Net position - end of year | \$ 36,941,428 |

Francis Marion University
Statement of Cash Flows
For the Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|--|---------------------|
| Tuition and fees | \$ 21,170,861 |
| Grants and contracts | 11,325,643 |
| Sales and services of educational and other activities | 482,673 |
| Sales and services of auxiliary enterprises | 1,725,732 |
| Receipts for reimbursements | 3,669,320 |
| Payments to suppliers | (16,002,358) |
| Payments to employees | (32,669,457) |
| Payments for benefits | (10,824,019) |
| Payments for scholarships | (3,889,042) |
| Loans to students | (295,082) |
| Collection of loans | 284,921 |
| Inflows from Federal direct lending loans | 26,221,602 |
| Outflows from Federal direct lending loans | (25,527,721) |
| Inflows from agency funds | 4,161,221 |
| Outflows from agency funds | (4,585,437) |
| Other receipts | 1,429,659 |
| Net cash (used) by operating activities | (23,321,484) |

CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|--|-------------------|
| State appropriations | 14,481,679 |
| Nonoperating grants | 9,387,414 |
| Gifts | 2,100,868 |
| Net cash flow provided by noncapital financing activities | 25,969,961 |

CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|--|--------------------|
| State capital appropriations | 3,460,161 |
| Capital grants and gifts received | 5,693,089 |
| Purchases of capital assets | (14,540,993) |
| Principal paid on bond payable | (325,000) |
| Principal paid on notes payable | (13,519) |
| Principal paid on capital leases | (24,798) |
| Interest and fees | (349,435) |
| Net cash (used) by capital and related financing activities | (6,100,495) |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|--|---------------|
| Interest on investments | 65,584 |
| Net cash flows provided by investing activities | 65,584 |

The accompanying notes are an integral part of the financial statements.

| | |
|--|----------------------|
| Net change in cash | (3,386,434) |
| Cash and cash equivalents - beginning of year | 15,699,631 |
| Cash and cash equivalents - end of year | \$ 12,313,197 |

Francis Marion University
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2016

**Reconciliation of net operating revenues (expenses) to net cash provided
(used) by operating activities:**

| | |
|---|------------------------------|
| Operating (loss) | (28,248,597) |
| Adjustments to reconcile net (loss) to net cash (used) by operating activities: | |
| Nonoperating revenues | 321,084 |
| Noncash gifts | 687,038 |
| Depreciation expense | 3,069,443 |
| Bad debts | 56,125 |
| Loan cancellations | 32,444 |
| Changes in asset and liabilities: | |
| Receivables net | 359,077 |
| Loans to students | (11,982) |
| Deferred charges and prepayments | (78,320) |
| Accounts payable | (150,508) |
| Accrued payroll and related liabilities | (301,731) |
| Deferred revenues and unearned student revenues | 113,466 |
| Perkins liability | (852) |
| Deposits held for others | 56,311 |
| Accrued compensated absences | (93,594) |
| Pension liability | 869,112 |
| Net cash (used) by operating activities | <u>\$(23,321,484)</u> |

Noncash capital and related financing activities:

The University disposed of equipment with costs of \$7,998 and accumulated depreciation of \$7,998.
The University received capital gifts with a cost of \$256,737.

The accompanying notes are an integral part of the financial statements.

Francis Marion University Education Foundation
Statement of Financial Position
December 31, 2015

ASSETS

| | |
|--------------------------------------|-------------------|
| Cash and cash equivalents | \$ 3,415,010 |
| Investments | 21,503,568 |
| Contributions receivable, net | 69,669 |
| Other receivables | 131,772 |
| Assets held in trust by others | 1,004,532 |
| Property and equipment, net | 1,246,834 |
| Other assets | 1,271,888 |
| Total assets | <u>28,643,273</u> |

LIABILITIES

| | |
|--|------------------|
| Accounts payable | 28,746 |
| Due to Francis Marion University | 32,899 |
| Note payable - Francis Marion University | 225,678 |
| Bonds payable | 789,952 |
| Total liabilities | <u>1,077,275</u> |

NET ASSETS

| | |
|--|----------------------|
| Unrestricted | 2,884,594 |
| Temporarily restricted | 10,213,922 |
| Permanently restricted | 14,467,482 |
| Total net assets | <u>27,565,998</u> |
| Total liabilities and net assets | <u>\$ 28,643,273</u> |

The accompanying notes are an integral part of the financial statements.

Francis Marion University Education Foundation
Statement of Activities
For the Year Ended December 31, 2015

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|-----------------------------------|------------------------------------|------------------------------------|------------------------------------|
| REVENUES, GAINS AND OTHER SUPPORT | | | | |
| Gifts and bequests | \$ 351,918 | \$ 810,265 | \$ 230,943 | \$ 1,393,126 |
| Trust income | - | 38,100 | - | 38,100 |
| Investment income | 12,047 | 348,978 | - | 361,025 |
| Registration and other fees | - | 10,700 | - | 10,700 |
| Rent and other income | 79,171 | 156,782 | - | 235,953 |
| Net unrealized and realized gains (losses) on investments | (29,956) | (609,900) | - | (639,856) |
| Net assets released from program restrictions | 2,164,995 | (2,164,995) | - | - |
| Total revenues, gains and other support | <u>2,578,175</u> | <u>(1,410,070)</u> | <u>230,943</u> | <u>1,399,048</u> |
| EXPENSES | | | | |
| Program Expenses | 1,817,412 | - | - | 1,817,412 |
| General and administrative | 502,259 | - | - | 502,259 |
| Fundraising | 119,793 | - | - | 119,793 |
| Total expenses | <u>2,439,464</u> | <u>-</u> | <u>-</u> | <u>2,439,464</u> |
| Change in net assets | 138,711 | (1,410,070) | 230,943 | (1,040,416) |
| Net assets, beginning of year | <u>2,745,883</u> | <u>11,623,992</u> | <u>14,236,539</u> | <u>28,606,414</u> |
| Net assets, end of year | <u><u>\$ 2,884,594</u></u> | <u><u>\$ 10,213,922</u></u> | <u><u>\$ 14,467,482</u></u> | <u><u>\$ 27,565,998</u></u> |

The accompanying notes are an integral part of the financial statements.

Francis Marion University Development Foundation
Statement of Financial Position
June 30, 2016

ASSETS

Current Assets

| | |
|--|------------------|
| Cash and cash equivalents | \$ 6,476,456 |
| Due from Francis Marion University | 312,665 |
| Held by Francis Marion University for the Foundation | 660,303 |
| Other receivables | 29,075 |
| Prepaid rent | 108,412 |
| Other prepaid expenses | 48,259 |
| Unamortized bond issue costs | 44,107 |
| Total current assets | 7,679,277 |

Noncurrent Assets

| | |
|--|-------------------|
| Restricted Cash and cash equivalents | 4,661,989 |
| Property and equipment | 13,149,301 |
| Prepaid rent | 1,852,044 |
| Other prepaid rent | 26,383 |
| Unamortized bond issue costs | 837,126 |
| Total noncurrent assets | 20,526,843 |
| Total assets | 28,206,120 |

LIABILITIES

Current Liabilities

| | |
|--|------------------|
| Accounts payable | 51 |
| Deferred revenue | 143,004 |
| Accrued interest payable | 396,846 |
| Bonds payable - current portion | 774,282 |
| Total current liabilities | 1,314,183 |

Noncurrent Liabilities

| | |
|---|-------------------|
| Bonds payable including premium, net of current portion | 21,236,278 |
| Total noncurrent liabilities | 21,236,278 |
| Total liabilities | 22,550,461 |

NET ASSETS

| | |
|---|----------------------|
| Unrestricted | 5,655,659 |
| Total liabilities and net assets | \$ 28,206,120 |

The accompanying notes are an integral part of the financial statements.

Francis Marion University Development Foundation
Statement of Activities
For the Year Ended June 30, 2016

REVENUES

| | |
|-------------------------------------|-------------------------|
| Rents - student housing | \$ 6,594,357 |
| Rents - other | 1,950 |
| Interest, net of trustee fees | 1,229 |
| Insurance proceeds gain | 1,537 |
| Total revenue | <u>6,599,073</u> |

EXPENSES

| | |
|-----------------------------------|-------------------------|
| Program services | |
| Housing services | 4,332,510 |
| University support | 1,861,900 |
| Other facilities operations | 7,785 |
| Total program services | <u>6,202,195</u> |
| General and administrative | 79,068 |
| Total expenses | <u>6,281,263</u> |

| | |
|--|-----------------------------------|
| Change in net assets | 317,810 |
| Net assets, beginning of year, restated | <u>5,337,849</u> |
| Net assets, end of year | <u><u>\$ 5,655,659</u></u> |

The accompanying notes are an integral part of the financial statements.

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Francis Marion University (the University) is a State-supported coeducational institution of higher education. The University's primary purpose is to provide academic instruction to students and conduct research and other activities that advance fundamental knowledge.

The University is a discretely presented component unit in the Comprehensive Annual Financial Report of the State of South Carolina.

Reporting Entity

The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, consists of the primary government and its component units. Component units are legally separate organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* provides additional guidance concerning the inclusion of related party financial information as a part of the reporting entity. The accompanying financial statements present only that portion of the funds of the State of South Carolina that is attributable to the transactions of the University and its component units.

The Francis Marion University Education Foundation (the Education Foundation) is a legally separate, tax-exempt component unit of the University. The Education Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. Although the University does not control the timing or amount of receipts from the Education Foundation, the majority of resources, or income thereon, that the Education Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Education Foundation can only be used by, or for the benefit of, the University, the Education Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. Copies of the

separately issued financial statements of the Education Foundation can be obtained by sending a request to Francis Marion University Education Foundation, Post Office Box 100547, Florence, South Carolina 29501.

The Francis Marion University Development Foundation (the Development Foundation) is a legally separate, tax-exempt component unit of the University. It is operated for the benefit of the University specifically to acquire, construct, finance, pledge, maintain, operate, manage and lease housing facilities for students and faculty of the University and other real property for the benefit and support of the University. The financial statements include the assets, liabilities and activities of Francis Marion University Student Housing, LLC of which the Development Foundation is the sole member. Copies of the separately issued financial statements of the Development Foundation can be obtained by sending a request to Francis Marion University Development Foundation, Post Office Box 100547, Florence, South Carolina 29501.

Basis of Accounting

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Student tuition and auxiliary enterprise fees are presented net of scholarships and fellowships applied to student accounts, while stipends and other payments made directly to students are presented as scholarship and fellowship expenses. All significant intra-agency transactions have been eliminated.

The University has elected not to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

The Education Foundation and the Development Foundation are private nonprofit organizations that reports under FASB, including FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Foundations' financial information in the University's financial reporting entity for these differences.

Cash and Cash Equivalents

For purposes of the financial statements, the University and its component units consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through South Carolina State Treasurer's Office are considered cash equivalents.

Investments

The University accounts for its investments at market value. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses and changes in net position.

Accounts Receivable

Accounts receivable consists of tuition and fees charged to students and auxiliary enterprise services provided to students, faculty, and staff. Accounts receivable also include amounts due from the federal, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated doubtful accounts.

Contributions Receivable

Contributions receivable consist of unconditional promises to give. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved. Contributions receivable are recorded net of estimated uncollectible amounts.

Prepaid Expenses

Expenditures for goods and services paid for in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods. For the University, amounts reported in this asset account consist primarily of prepaid insurance, prepaid postage, prepaid travel and advance payments for maintenance and service agreements.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The University follows capitalization guidelines established by the State of South Carolina. All land is capitalized, regardless of cost. Qualifying improvements that rest in or on the

land itself are recorded as depreciable land improvements. Major additions and renovations and other improvements that add to the usable space, prepare existing buildings for new uses, or extend the useful lives of existing buildings are capitalized. The University capitalizes movable personal property with a unit value in excess of \$5,000 and a useful life of two years or greater and depreciable land improvements, buildings and improvements, and intangible assets costing in excess of \$100,000. Routine repairs and maintenance and library materials, except individual items costing in excess of \$5,000, are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and improvements and land improvements, 3 years for computer software, and 2 to 25 years for machinery, equipment, and vehicles. The University adopted, effective for the fiscal year ended June 30, 2012, a monthly depreciation convention for the straight-line method consistent with the policy of the State of South Carolina.

Deferred Revenues and Deposits

Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but relate to the subsequent accounting period. Deferred revenues also include deferred rental income and amounts received from grant and contract sponsors that have not yet been earned.

Accrued Compensated Absences

Employee vacation pay expense is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the statement of net position, and as components of salaries and wages and benefits expenses in the statement of revenues, expenses, and changes in net position.

Perkins Loans Receivable and Related Liability

The loans receivable on the balance sheet are due to the University under the Perkins Loan Program. The federal government funds this program with the University providing a required match. The amount reported as Perkins liability is the amount of cumulative federal contributions and a prorata share of net earnings on the loans under this program that would have to be repaid to the federal government if the University ceases to participate in the program.

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

The University recognizes as revenue and expenses only the portion attributable to its matching contribution.

Deferred Outflows of Resources and Deferred Inflows of Resources

Changes in net pension liability not included in pension expense are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions subsequent to the measurement date of the net pension liability are reported as deferred outflows of resources.

Net Position

The University's net position is comprised of the following:

Net investment in capitalized assets: This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets - expendable: Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Restricted net assets - nonexpendable: Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, appropriations, and sales and services of educational departments and auxiliary enterprises. These resources may be used at the discretion of the governing board to meet current expenses. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff.

The University policy for applying expenses that can use both restricted and unrestricted resources is delegated to the departmental administrative level. General practice is to first apply the expense to restricted resources then to unrestricted resources.

Income Taxes

The University, as a political subdivision of the State of South Carolina, is excluded from federal income taxes under Section 115(a) of the Internal Revenue Code, as amended.

Classification of Revenues

The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues: Operating revenues generally result from exchange transactions to provide goods or services related to the University's principal ongoing operations. These revenues include (1) student tuition and fees received in exchange for providing educational services, housing, and other related services to students; (2) receipts for scholarships where the provider has identified the student recipients; (3) fees received from organizations and individuals in exchange for miscellaneous goods and services provided by the University; and (4) grants and contracts that are essentially the same as contracts for services that finance programs the University would not otherwise undertake.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions. These revenues include gifts and contributions, appropriations, investment income, and any grants and contracts that are not classified as operating revenue or restricted by the grantor to be used exclusively for capital purposes.

Sales and Services of Educational and Other Activities

Revenues from sales and services of educational and other activities generally consist of amounts received from instructional, laboratory, research, and public service activities that incidentally create goods and services which may be sold to students, faculty, staff, and the general public. The University receives such revenues primarily from community groups using campus facilities for summer camps and other activities.

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Sales and Services of Auxiliary Enterprises and Internal Service Activities

Auxiliary enterprise revenues primarily represent revenues generated by the bookstore, dining services, and housing. Transactions between the University and its auxiliary enterprise activities and its internal service department have been eliminated.

Scholarship Discounts and Allowances

Student tuition and fee revenues and certain other revenues from students are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student

charges, the University has recorded a scholarship discount and allowance.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses and affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

NOTE 2 – CASH AND CASH EQUIVALENTS, DEPOSITS, AND INVESTMENTS

All deposits and investments of the University are under the control of the State Treasurer who, by law, has sole authority for investing State funds. The following schedule reconciles deposits and investments within the footnotes to the statement of net position amounts:

| <u>Statement of Net Position</u> | | <u>Footnotes</u> | |
|--|----------------------|----------------------------------|----------------------|
| Cash and cash equivalents (current) | \$ 9,004,500 | Cash on hand | \$ 26,525 |
| Restricted cash and cash equivalents (noncurrent): | | Deposits held by State Treasurer | 12,286,672 |
| Grants and gifts | 502,397 | | |
| Perkins loan funds | 308,723 | | |
| Capital projects | 2,497,577 | | |
| Total | <u>\$ 12,313,197</u> | Total | <u>\$ 12,313,197</u> |

Deposits Held by State Treasurer

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 3 – RECEIVABLES

Accounts Receivable

The University accounts receivable as of June 30, 2016, are summarized as follows:

| | |
|---|----------------------------|
| Current: | |
| Student tuition and fees | \$ 1,007,397 |
| Allowance for doubtful accounts | (483,280) |
| Federal grants and contracts | 574,945 |
| State and local grants and contracts | 10,691 |
| Sales and services of education departments | 87,418 |
| Auxiliary services | 75,948 |
| Capital reserve funds | 29,839 |
| Other | 200,696 |
| Net accounts receivable | <u><u>\$ 1,503,654</u></u> |

The amounts shown above are reported at gross with all discounts and allowances disclosed.

The allowance for doubtful accounts for student accounts receivable is established based upon actual losses experienced in prior years and evaluations of the current account portfolio. At June 30, 2016, the allowance for uncollectible student accounts is valued at \$483,280.

The University is reimbursed for contractual services provided to outsourced auxiliary contractors. Reimbursements due for these services at June 30,

2016, are \$12,308 and are included in accounts receivable – auxiliary services.

Contributions Receivable

Contributions receivable are comprised of pledges for gifts to support the University. Contributions receivable are accounted for at their estimated net realizable value or the present value of long-term pledges.

The University contributions receivable as of June 30, 2016, are summarized as follows:

| | |
|-------------------------------------|----------------------------|
| Current: | |
| Gift Pledges Outstanding | \$ 2,501,275 |
| Less discounts to net present value | - |
| Net contributions receivable | <u><u>\$ 2,501,275</u></u> |

NOTE 4 – LOANS RECEIVABLE

Student loans made through the federal Perkins loan program comprise substantially all of the loans receivable as of June 30, 2016. The Perkins loan program provides various repayment options; students have the right to repay the loans over periods up to 10 years depending on the amount of the loan and loan cancellation privileges the student may exercise. As the University determines that loans are uncollectible, the loans are written off and assigned to the US Department of Education.

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 5 – CAPITAL ASSETS

Capital assets activity of the University for the year ended June 30, 2016, is summarized as follows:

| | Beginning Balance July 1, 2015 | Increases | Decreases | Ending Balance June 30, 2016 |
|--|--------------------------------------|---------------|------------|------------------------------------|
| Capital assets not being depreciated: | | | | |
| Land and improvements | \$ 4,715,128 | \$ - | \$ - | \$ 4,715,128 |
| Construction in progress | 2,130,273 | 14,407,380 | 117,950 | 16,419,703 |
| Art work and historical treasures | 193,908 | - | - | 193,908 |
| Total capital assets not being depreciated | 7,039,309 | 14,407,380 | 117,950 | 21,328,739 |
| Other capital assets: | | | | |
| Land improvements | 10,449,109 | 117,950 | - | 10,567,059 |
| Buildings and improvements | 107,698,859 | - | - | 107,698,859 |
| Computer software | 131,895 | - | - | 131,895 |
| Machinery, equipment, and other | 4,218,460 | 354,352 | 7,998 | 4,564,814 |
| Vehicles | 431,063 | - | - | 431,063 |
| Total other capital assets at historical cost | 122,929,386 | 472,302 | 7,998 | 123,393,690 |
| Less accumulated depreciation for: | | | | |
| Land improvements | 4,488,859 | 567,333 | - | 5,056,192 |
| Buildings and improvements | 52,483,679 | 2,154,068 | - | 54,637,747 |
| Computer software | 131,895 | - | - | 131,895 |
| Machinery, equipment, and other | 3,134,559 | 270,709 | 7,998 | 3,397,270 |
| Vehicles | 332,374 | 77,333 | - | 409,707 |
| Total accumulated depreciation | 60,571,366 | 3,069,443 | 7,998 | 63,632,811 |
| Other capital assets, net of accumulated depreciation | 62,358,020 | (2,597,141) | - | 59,760,879 |
| Capital assets, net of accumulated depreciation | \$ 69,397,329 | \$ 11,810,239 | \$ 117,950 | \$ 81,089,618 |

NOTE 6 – PENSION PLAN

The Governmental Accounting Standards Board (GASB) issued Statement No. 68 entitled *Accounting and Financial Reporting for Pension Plans* in June 2012. The disclosure requirements applicable to employers participating in the South Carolina Retirement System or the Police Officers Retirement System are prescribed in paragraphs 48 through 82 of GASB 68.

The following information is provided in order to assist employers in meeting current disclosure requirements. Additional materials to assist employers in complying with GASB requirements, including an audit report on the Schedules of Employer Allocations, Schedules of Pension Amounts by Employer, and Related Notes to the Schedules are available online at <http://www.peba.sc.gov/rgasb.html>.

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Description of the Entity

The South Carolina Public Employee Benefit Authority (PEBA), which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the Budget and Control Board (State Fiscal Accountability Authority effective July 1, 2015), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the South Carolina Retirement Systems (Systems) and serves as a co-trustee of the Systems in conducting that review.

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Systems and additions to/deductions from the Systems fiduciary net position have been determined on the accrual basis of accounting as they are reported by the Systems in accordance with generally accepted accounting principles (GAAP). For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Benefit and refund expenses are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

PEBA issues a Comprehensive Annual Financial Report (CAFR) containing financial statements and required supplementary information for the South Carolina Retirement Systems' Pension Trust Funds. The CAFR is publicly available on the Retirement Benefits' link on PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960. PEBA is considered a division of the primary government of the state of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the state.

Plan Description

The South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for

employees of the state, its public school districts, and political subdivisions.

The South Carolina Police Officers Retirement System (PORS), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1962, pursuant to the provisions of Section 9-11-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for police officers and firemen of the state and its political subdivisions.

The State Optional Retirement Program (State ORP) is a defined contribution plan that is offered as an alternative to SCRS to certain newly hired state, public school, and higher education employees. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers.

Membership

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under each system is presented below.

SCRS - Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. This plan covers general employees and teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

PORS - To be eligible for PORS membership, an employee must be required by the terms of his employment, by election or appointment, to preserve public order, protect life and property, and detect crimes in the state; to prevent and control property destruction by fire; or to serve as a peace officer employed by the Department of Corrections, the Department of Juvenile Justice, or the Department of Mental Health. Probate judges and coroners may elect membership in PORS. Magistrates are required to participate in PORS for service as a magistrate. PORS members, other than magistrates and probate judges, must also earn at least \$2,000 per year and devote at least 1,600 hours per year to this work, unless exempted by statute. An employee member of

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

State ORP - As an alternative to membership in SCRS, newly hired state, public school, and higher education employees and individuals newly elected to the S.C. General Assembly beginning with the November 2012 general election have the option to participate in the State Optional Retirement Program (State ORP), which is a defined contribution plan. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the investment providers. For this reason, State ORP programs are not considered part of the retirement systems for financial statement purposes. Employee and Employer contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employers to the member's account with investment providers for the employee contribution and a portion of the employer contribution (5 percent). A direct remittance is also required to SCRS for the remaining portion of the employer contribution and an incidental death benefit contribution), if applicable, which is retained by SCRS.

Benefits

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation. A brief summary of benefit terms for each system is presented below.

SCRS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to

receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

PORS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 55 or with 25 years of service regardless of age. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension at age 55 or with 27 years of service regardless of age. Both Class Two and Class Three members are eligible to receive a deferred annuity at age 55 with five or eight years of earned service, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program. Accidental death benefits are also provided upon the death of an active member working for a covered employer whose death was a natural and proximate result of an injury incurred while in the performance of duty.

The retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase.

Contributions

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. Upon recommendation by the actuary in the annual actuarial valuation, the PEBA Board may adopt and present to the Budget and Control Board for approval an increase in the SCRS and PORS employer and employee contribution rates, but any such increase may not result in a differential between the employee and total

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employer contribution rate that exceeds 2.9 percent of earnable compensation for SCRS and 5 percent for PORS. An increase in the contribution rates adopted by the board may not provide for an increase of more than one-half of one percent in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the board are insufficient to maintain a thirty year amortization schedule of the unfunded

liabilities of the plans, the board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; and, this increase is not limited to one-half of one percent per year.

Required employee contribution rates for fiscal year 2015-2016 are as follows:

SCRS

| | |
|----------------------|--------------------------------|
| Employee Class Two | 8.16% of earnable compensation |
| Employee Class Three | 8.16% of earnable compensation |

PORS

| | |
|----------------------|--------------------------------|
| Employee Class Two | 8.74% of earnable compensation |
| Employee Class Three | 8.74% of earnable compensation |

| | |
|---------------------------|--------------------------------|
| State ORP Employee | 8.16% of earnable compensation |
|---------------------------|--------------------------------|

Required employer contributions for fiscal year 2015-2016 are as follows:

SCRS

| | |
|-----------------------------------|---------------------------------|
| Employer Class Two | 10.91% of earnable compensation |
| Employer Class Three | 10.91% of earnable compensation |
| Employer Incidental Death Benefit | 0.15% of earnable compensation |

PORS

| | |
|-----------------------------------|---------------------------------|
| Employer Class Two | 13.34% of earnable compensation |
| Employer Class Three | 13.34% of earnable compensation |
| Employer Incidental Death Benefit | 0.20% of earnable compensation |
| Employer Accidental Death Benefit | 0.20% of earnable compensation |

State ORP

| | |
|-----------------------------------|---------------------------------|
| Employer Contribution | 10.91% of earnable compensation |
| Employer Incidental Death Benefit | 0.15% of earnable compensation |

Of the State ORP employer contribution, 5% of earnable compensation must be remitted by the employer directly to the ORP vendor to be allocated to the member's account with the remainder of the employer contribution remitted to the SCRS.

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Contributions to the SCRS, PORS, and State ORP pension plans from the University were \$2,058,295, \$69,500, and \$702,191 for the year ended June 30, 2016, respectively.

Teacher and Employee Retention Incentive

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any benefit adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not earn service credit, and are ineligible for disability retirement benefits. The TERI program will end effective June 30, 2018 and a member's participation may not continue after this date.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the University reported liabilities of \$50,695,304 and \$1,024,407 for its proportionate share of the SCRS and PORS net pension liability, respectively. The net pension liability was measured as of June 30, 2015. The University's proportion of the net pension liability was based on the University's contributions to the pension plan relative to the contributions of all covered employers.

For the year ended June 30, 2016, the University recognized pension expense of \$3,688,269 and \$88,824 for SCRS and PORS, respectively.

At June 30, 2016, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>SCRS</u> | <u>PORS</u> |
|--|----------------------------|--------------------------|
| Deferred Outflows of Resources | | |
| Liability Experience | \$ 900,683 | \$ 20,304 |
| Investment Experience | 339,329 | 11,209 |
| Change in Proportion and Difference Between Employer Contribution and Proportionate Share of Plan Contributions | 18,243 | - |
| University Contributions Subsequent to the Measurement Date | 2,760,486 | 69,500 |
| TOTAL | <u>\$ 4,018,741</u> | <u>\$ 101,013</u> |
| Deferred Inflows of Resources | | |
| Liability Experience | \$ 90,659 | \$ - |
| Investment Experience | - | - |
| Change in Proportion and Difference Between Employer Contribution and Proportionate Share of Plan Contributions | - | 9,046 |
| TOTAL | <u>\$ 90,659</u> | <u>\$ 9,046</u> |

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Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the SCRS and PORS plans, respectively:

| <u>Year ended June 30,</u> | <u>SCRS</u> | <u>PORS</u> |
|----------------------------|-------------|-------------|
| 2017 | \$ 222,803 | \$ 80 |
| 2018 | 222,803 | 803 |
| 2019 | (86,567) | (94) |
| 2020 | 808,557 | 20,955 |

Actuarial Assumptions and Methods

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Actuarial assumptions and methods used during the annual valuation process are subject to periodic revision, typically with an experience study, as actual results over an extended period of time are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. The last experience study was performed on data through June 30, 2010, and the next experience study, performed on data through June 30, 2015, is currently underway.

The June 30, 2015, total pension liability, net pension liability, and sensitivity information were determined by our consulting actuary, Gabriel, Roeder, Smith and Company (GRS) and are based on the July 1, 2014, actuarial valuations, as adopted by the PEBA Board and Budget and Control Board which utilized membership data as of July 1, 2014. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ended June 30, 2015, using generally accepted actuarial principles. Information included in the following schedules is based on the certification provided by GRS.

The following provides a summary of the actuarial assumptions and methods used in the July 1, 2014, valuations for SCRS and PORS.

| | <u>SCRS</u> | <u>PORS</u> |
|---|--------------------------------------|--------------------------------------|
| Actuarial cost method | Entry age normal | Entry age normal |
| Investment rate of return | 7.50% | 7.50% |
| Projected salary increases Includes inflation at 2.75% | 3.5% to 12.5% (varies by service) | 4.0% to 10.0% (varies by service) |
| Benefit adjustments | lesser of 1% or \$500 annually | lesser of 1% or \$500 annually |

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The post-retiree mortality assumption is dependent upon the member's job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000. Assumptions used in the July 1, 2014, valuations for SCRS and PORS are as follows.

| Former Job Class | Males | Females |
|---|---|--|
| Educators | RP-2000 Males (with White Collar adjustment) multiplied by 110% | RP-2000 Females (with White collar adjustment) multiplied by 95% |
| General Employees and Members of the General Assembly | RP-2000 Males multiplied by 100% | RP-2000 Females multiplied by 90% |
| Public Safety and Firefighters | RP-2000 Males (with Blue Collar adjustment) multiplied by 115% | RP-2000 Females (with Blue Collar adjustment) multiplied by 115% |

The long-term expected rate of return on pension plan investments, as used in the July 1, 2014, actuarial valuations, was based upon the 30 year capital market outlook at the end of the fourth quarter 2013, as developed by the Retirement Systems Investment Commission in collaboration with its investment consultant, Aon Hewitt. The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economics forecasts. Long-term assumptions for other asset classes are based on historical results, current market characteristics, and professional judgement.

The expected returns, along with the expected inflation rate, form the basis for the target allocation as adopted by the Investment Commission for fiscal year 2015. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation and is summarized in the following table. For actuarial purposes, the 7.50 percent assumed annual investment rate of return set in statute and used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

FRANCIS MARION UNIVERSITY
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| Asset Class | Target Asset Allocation | Expected Arithmetic Real Rate of Return | Long Term Expected Portfolio Real Rate of Return |
|----------------------------------|--------------------------------|--|---|
| Short Term | 5.0% | | |
| Cash | 2.0% | 1.90% | 0.04% |
| Short Duration | 3.0% | 2.00% | 0.06% |
| Domestic Fixed Income | 13.0% | | |
| Core Fixed Income | 7.0% | 2.00% | 0.19% |
| Mixed Credit | 6.0% | 3.80% | 0.23% |
| Global Fixed Income | 9.0% | | |
| Global Fixed Income | 3.0% | 2.80% | 0.08% |
| Emerging Markets Debt | 6.0% | 5.10% | 0.31% |
| Global Public Equity | 31.0% | 7.10% | 2.20% |
| Global Tactical Asset Allocation | 10.0% | 4.90% | 0.49% |
| Alternative | 32.0% | | |
| Hedge Funds (Low Beta) | 8.0% | 4.30% | 0.34% |
| Private Debt | 7.0% | 9.90% | 0.69% |
| Private Equity | 9.0% | 9.90% | 0.89% |
| Real Estate (Broad Market) | 5.0% | 6.00% | 0.30% |
| Commodities | 3.0% | 5.90% | 0.18% |
| Total expected real return | 100.0% | | 6.00% |
| Inflation for actuarial purposes | | | 2.75% |
| Total expected nominal return | | | 8.75% |

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that the funding policy specified in the South Carolina State Code of Laws will remain unchanged in future years. Based on those assumptions, each System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was

applied to all periods of projected benefit payments to determine the total pension liability.

The following table presents the collective net pension liability of the participating employers calculated using the discount rate of 7.50 percent, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1.00 percent lower (6.50 percent) or 1.00 percent higher (8.50 percent) than the current rate.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

| System | 1.00% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|---------------|-----------------------------------|--|--------------------------------|
| SCRS | \$ 23,910,053,704 | \$ 18,965,482,129 | \$ 14,821,302,520 |
| PORS | 2,968,982,818 | 2,179,496,384 | 1,473,738,169 |

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A plan's Net Pension Liability (NPL) is determined by reducing its total pension liability by its fiduciary net position. Total pension liability is defined by GASB as the portion of the actuarial present value of projected benefit payments that is attributed to past periods of member service in conformity with the requirements of GASB 67. Total pension liability may be impacted annually by the cost of service accrued by participants, interest accrued on the liability, the impact of benefit and assumption changes, the cost of benefit payments, and the difference between expected and actual plan experience. The most significant impact on a plan's fiduciary net position relates to the rate of return on its investments. Consequently, significant fluctuations in the market value of investments substantially affect the fiduciary net position component of the NPL calculation, and as a result, cause a direct change in the NPL.

Investments earned 1.60% during the plan year ended June 30, 2015 and thus the market value of the SCRS and PORS investments increased slightly. However, this resulted in negative cash flows because net investment income plus other plan additions (contributions) were not substantial enough to offset plan deductions (benefit payments and administrative costs). Accordingly, SCRS and PORS experienced an overall decrease in plan fiduciary net position for the fiscal year ended June 30, 2015. This change, coupled with the annual increase in the total pension liability, led to a \$1.75 billion and \$265 million increase in the NPL for SCRS and PORS, respectively, for the measurement period ended June 30, 2015.

As previously communicated by PEBA, the financial reporting changes required by GASB 68 are likely to result in increased volatility in an employers' reported proportionate share of the NPL from one year to the next. Regardless of the NPL reported on the employer's financial statements, the employer is responsible only for making the contributions required by state law during any given year. Employers cannot pay down or pay off their proportionate share of the NPL because SCRS and PORS are multiple employer, cost-sharing defined benefit plans.

Pension Plan Fiduciary Net Position

Detailed information regarding the fiduciary net position of the plans administered by PEBA is available in the separately issued CAFR containing financial statements and required supplementary information for SCRS and PORS. The CAFR of the Pension Trust Funds is publicly available on PEBA's

Retirement Benefits' website at www.retirement.sc.gov, or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960.

NOTE 7 – POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS

Plan Description

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents. The University contributes to the South Carolina Retiree Health Insurance Trust Fund (SCRHITF) and the South Carolina Long-Term Disability Insurance Trust Fund (SCLTDITF), cost-sharing multiple employer defined benefit postemployment healthcare, and long-term disability plans administered by the Insurance Benefits Division (IB), a part of the South Carolina Public Employee Benefit Authority (PEBA).

Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires beginning employment May 2, 2008, and after, retirees are eligible for benefits if they have established 25 years of service for 100% employer funding and 15 through 24 years of service for 50% employer funding.

Benefits become effective when the former employee retires under a State retirement system. Basic Long-Term Disability (BLTD) benefits are provided to active state, public school district, and participating local government employees approved for disability.

Funding Policies

Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the IB and participating retirees to the PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the IB, for its active employees who are not funded by State General Fund appropriations. Employers participating in the Retiree Medical Plan are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 5.33% of annual covered payroll for 2016

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and 5.00% of annual covered payroll for 2015. The IB sets the employer contribution rate based on a pay-as-you-go basis. The University paid \$1,636,491 and \$1,543,857 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2016 and 2015, respectively. BLTD benefits are funded through a person's premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to IB was \$3.22 for the fiscal years ended June 30, 2016 and 2015. The University recorded employer contributions expenses applicable to these insurance benefits for active employees in the amount of \$18,470 and \$18,402 for the years ended June 30, 2016 and 2015, respectively.

Effective May 1, 2008 the State established two trust funds through Act 195 for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and long-term disability insurance benefits. The SCRHITF is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated IB reserves, and income generated from investments. The SCLTDITF is primarily funded through investment income and employer contributions.

A copy of the complete financial statements for the benefit plans and the trust funds can be obtained from PEBA Retirement Benefits and Insurance Benefits, 202 Arbor Lake Drive, Suite 360, Columbia, SC 29223.

**NOTE 8 – CONTINGENCIES,
LITIGATION, AND COMMITMENTS**

The University is party to various lawsuits arising out of the normal conduct of its operations. In the opinion of University management, there are no material claims or lawsuits against the University that are not covered by insurance or whose settlement would materially affect the University's financial position.

The University participates in certain federal grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Management believes disallowances, if any, will not be material.

The University had outstanding commitments under construction contracts of \$285,693 at June 30, 2016, of which \$189,101 will be capitalized. The University anticipates funding these projects out of private gifts, state capital reserve funds, state lottery funds, and state capital improvement bond proceeds. The State has issued capital improvement bonds to fund improvements and expansion of state facilities. The University is not obligated to repay these funds to the State. Authorized funds can be requested as needed once State authorities have given approval to begin specific projects and project expenditures have been incurred. The University has \$255,932 of authorized undrawn state capital improvement bonds.

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NOTE 9 – UNEARNED REVENUES

Unearned revenues as of June 30, 2016, are summarized as follows:

| | |
|--------------------------|----------------------------|
| Current: | |
| Student tuition and fees | \$ 487,158 |
| Grants and contracts | 95,884 |
| Housing rentals | <u>108,412</u> |
| Net unearned revenues | <u><u>\$ 691,454</u></u> |
| Noncurrent: | |
| Housing rental | <u>\$ 1,852,044</u> |
| Net unearned revenues | <u><u>\$ 1,852,044</u></u> |

NOTE 10 – LEASE OBLIGATIONS

Future commitments for leases as of June 30, 2016, are as follows:

| | Year Ending June 30, | Capital Lease Payments |
|-----------------------------|-------------------------|---------------------------|
| | 2017 | \$ 15,696 |
| | 2018 | 11,263 |
| | 2019 | <u>11,263</u> |
| Total minimum lease payment | | 38,222 |
| Less: Interest | | 1,365 |
| Executory and other costs | | <u>4,306</u> |
| Principal outstanding | | <u><u>\$ 32,551</u></u> |

Capital Leases

Capital leases for various equipment are payable in monthly installments from current resources. Certain capital leases provide for renewal and/or purchase options. The cost of assets held under capital leases totaled \$118,685 as of June 30, 2016. Accumulated amortization of the leases on this equipment totaled \$87,581 at June 30, 2016, resulting in a book value of \$31,104. Current year amortization expense on capital leases was \$23,737 and is included in

depreciation expense. Interest expense on capital leases was \$1,557. The capital leases are with external parties.

Operating Leases

During fiscal year 2016, the University paid \$82,652 for copier leases on a cost per copy basis to external parties. The University also paid \$39,829 on equipment under cancelable operating leases, all of which was with other State agencies.

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Capital Leases – Lessor

During the 2006 fiscal year, the University received a donation of a building and agreed to lease the property back to the donor for 99 years at \$1 per year. No assets or liabilities related to this transaction are reflected in the University's financial statements due to immateriality of the amounts involved.

NOTE 11 – BONDS AND NOTES PAYABLE

Bonds Payable

Bonds payable consisted of the following at June 30, 2016.

| | <u>Interest Rates</u> | <u>Maturity Dates</u> | <u>Balance</u> |
|---|---------------------------|---------------------------|----------------|
| Athletic Facilities Revenue Bonds, Series 2009A | 4.98% | 2017 - 2029 | \$ 6,770,000 |

In 2010, the University issued Athletic Facilities Revenue Bonds, Series 2009A, in the amount of \$8,500,000. The proceeds of these bonds were used to construct an athletic complex. The bonds are secured by revenue derived from special student fees.

The scheduled maturities of the Athletic Facilities Revenue bonds are as follows:

| <u>Year Ended June 30,</u> | <u>Total Principal</u> | <u>Interest</u> | <u>Total Payments</u> |
|--------------------------------|----------------------------|---------------------|---------------------------|
| 2017 | \$ 345,000 | \$ 328,556 | \$ 673,556 |
| 2018 | 360,000 | 311,001 | 671,001 |
| 2019 | 380,000 | 292,575 | 672,575 |
| 2020 | 400,000 | 273,153 | 673,153 |
| 2021 | 420,000 | 252,735 | 672,735 |
| 2022-2026 | 2,430,000 | 920,802 | 3,350,802 |
| 2027-2030 | 2,435,000 | 250,121 | 2,685,121 |
| Totals | <u>\$ 6,770,000</u> | <u>\$ 2,628,943</u> | <u>\$ 9,398,943</u> |

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NOTE 12 – LONG-TERM LIABILITIES

Long-term liability activity of the University for the year ended June 30, 2016, is as follows:

| | June 30, 2015 | Additions | Reductions | June 30, 2016 | Due within One year |
|--|------------------|--------------|--------------|------------------|------------------------|
| Bonds, note, and capital leases payable: | | | | | |
| Capital leases payable | \$ 57,349 | \$ - | \$ 24,798 | \$ 32,551 | \$ 13,339 |
| Notes payable | 13,519 | - | 13,519 | - | - |
| Bonds payable | 7,095,000 | - | 325,000 | 6,770,000 | 345,000 |
| Total payables | 7,165,868 | - | 363,317 | 6,802,551 | 358,339 |
| Other liabilities: | | | | | |
| Accrued compensated absences | 2,335,943 | 1,399,624 | 1,493,218 | 2,242,349 | 1,463,115 |
| Unearned housing rentals | 2,068,868 | - | 108,412 | 1,960,456 | 108,412 |
| Perkins federal capital contributions | 1,511,026 | 1,376 | - | 1,512,402 | - |
| Total other liabilities | 5,915,837 | 1,401,000 | 1,601,630 | 5,715,207 | 1,571,527 |
| Total long-term liabilities | \$ 13,081,705 | \$ 1,401,000 | \$ 1,964,947 | \$ 12,517,758 | \$ 1,929,866 |

NOTE 13 – ENDOWMENTS

Donor Restricted Permanent Endowments

Endowments are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be utilized. The University's endowments require that the income be used for specific purposes. These restrictions are discussed in Note 14. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation (realized and unrealized) of the endowment fund investments. Any net appreciation is required to be spent for the purposes for which the endowment was established.

NOTE 14 – COMPONENT UNITS

The Francis Marion University Education Foundation

As discussed in Note 1, the Education Foundation is a legally separate, tax-exempt corporation organized to supplement the resources that are available to the University in support of its programs.

Various financial activities occurred between the University and the Education Foundation. A summary of transactions and/or balances at June 30, 2016, and for the year then ended follows.

- | | | |
|----|---|------------|
| a) | Scholarships awarded by the University and funded by the Education Foundation. The University recorded these amounts as gift revenue and either tuition discounts or scholarship expense. | \$ 784,025 |
| b) | Awards for lectures, grants, special programs, and certain other expenses paid by the University and funded by the Education Foundation. (Includes \$5,635 owed to the University at June 30, 2016, and included in amount due from the Education Foundation.) The University recorded these awards as gift revenue and the applicable operating expense. | \$ 204,841 |

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- c) Personal service payments to professors holding endowed chairs made by the University and funded by the Education Foundation. The University recorded these amounts as gift revenue and salary expense. \$ 80,500

- d) Reimbursements for University employee time and other costs paid by the University on behalf of the Education Foundation and reimbursed by the Education Foundation. The University recorded these reimbursements as reductions of the applicable operating expenses. \$ 69,983

- e) Group life insurance premium payments made by the University and funded by the Education Foundation. (Includes \$695 owed to the University at June 30, 2016, and included in amount due from the Education Foundation.) The University recorded these amounts as gift revenue and benefits expense. \$ 4,467

- f) Payments by the Education Foundation for the benefit of the University and its staff included \$47,043 for club memberships, \$1,222 for furniture and appliances, \$130,869 for other goods and services, \$50,804 for special events and \$48,622 for travel. The University recorded these gifts in applicable operating expenses.

- g) The Education Foundation owes the University \$3,048 for revenue and taxes collected for the faculty-alumni facility which is included in due from Education Foundation.

- h) The Education Foundation rented the Performing Arts Center for various events. At June 30, 2016 the University owes the Education Foundation \$5,205 in collected ticket sales.

- i) The University continued a loan agreement with the Education Foundation in which the University lent the Education Foundation \$200,000 (all of its endowment assets). The Education Foundation agrees to make payments to the University on behalf of the recipients of the two Palmetto Professorships. This award will be made only when the chairs are actually occupied, and any earnings above the established level shall be returned to the principal and accrue accordingly. For fiscal year 2016, the endowment earned \$6,902 which was applied to principal. As of June 30, 2016, the outstanding principal balance is \$237,723. Lending of the University's endowment resources to the Education Foundation is in accordance with Section 59-101-410 of the South Carolina Code of Laws which authorizes the governing boards of state-supported universities to lend their endowment and auxiliary enterprise monies on deposit with the State Treasurer's Office to separately chartered not-for-profit legal entities whose purpose is primarily providing financial assistance and other support to the institution and its educational program.

- j) The Education Foundation owes \$5,607 for reimbursement of various expenses paid by the University. The University owes the Education Foundation \$119,210 for fees the Foundation advanced on behalf of students.

Cash and Cash Equivalents, Deposits, and Investments

Cash and cash equivalents of the Education Foundation include interest bearing money market accounts and short-term investments with an original maturity of three months or less. The Education Foundation maintains its cash balances in various financial institutions. As of December 31, 2015, there were uninsured amounts at the institutions of \$330,283.

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A summary of investments as of December 31, 2015, follows:

| | |
|-------------------|-----------------------------|
| Mutual funds | \$ 3,619,591 |
| Equity securities | 12,887,590 |
| Corporate bonds | <u>4,996,387</u> |
| Total | <u><u>\$ 21,503,568</u></u> |

Financial instruments which potentially subject the Education Foundation to concentration of credit risk consist principally of investments in various debt securities. The exposure to concentrations of credit risk relative to investments is limited due to the Education Foundation's investment objectives and policies, as adopted by its Board of Directors.

Contributions Receivable

Contributions receivable of the Education Foundation, which consist of unconditional promises to give adjusted for a discount commensurate with the risk involved in the delay of collection and an allowance for uncollectible receivables, as of December 31, 2015, are summarized as follows:

| | |
|---|-------------------------|
| Unconditional promises expected to be collected in: | |
| Less than one year | \$ 76,220 |
| One year to five years | <u>31,815</u> |
| | 108,035 |
| Less discounts to net present value | 30,000 |
| Less allowance for uncollectible contributions | <u>8,366</u> |
| Net contributions receivable | <u><u>\$ 69,669</u></u> |

The allowance is determined based upon management's judgment considering past history of write-offs. The discount for present value was the effective earnings rate of 4.5%.

Assets Held in Trust by Others

The Education Foundation has a 30% interest in a permanent trust created by an estate. The ownership in this trust was valued for \$654,331 at December 31, 2015.

The Education Foundation has a 100% interest in a charitable remainder unitrust. The ownership in this trust was valued at \$337,876 at December 31, 2015.

The Education Foundation is to receive \$627 per month for the next 49 months under an annuity donated during the year ended December 31, 2015. The value of this annuity is valued at \$12,325 at December 31, 2015.

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Property and Equipment

Property and equipment of the Education Foundation as of December 31, 2015, consists of the following:

| | |
|-------------------------------|----------------------------|
| Land | \$ 183,900 |
| Building | 1,317,008 |
| Furniture and equipment | <u>67,033</u> |
| | 1,567,941 |
| Less accumulated depreciation | <u>321,107</u> |
| Property and equipment, net | <u><u>\$ 1,246,834</u></u> |

Depreciation Expense of \$39,337 was recognized for the period ended December 31, 2015.

Other Assets

Included in other assets is the Education Foundation's ownership in various parcels of real estate that are held with the intent to sell and reported at carrying value of \$1,270,596 as of December 31, 2015. In addition, the Education Foundation has ownership in the cash surrender value of various life insurance policies at \$1,292 as of December 31, 2015.

Debt

The Education Foundation has entered into debt agreements for which outstanding balances as of December 31, 2015, are as follows:

| | |
|---|------------|
| Note with the University requiring interest at the earnings rate of the Education Foundation's Investment Pools. Interest is accrued to principal annually. Principal is due on demand. | \$ 225,678 |
|---|------------|

JEDA Bonds outstanding which initially required quarterly interest at the Prime Rate plus 2 percent through August 2008. After August 2008, the Education Foundation is required to make quarterly installments of \$34,370, which includes principal and interest at the rate of 4.75% with the remaining principal due on demand at the August 1, 2022 maturity date.

| |
|----------------------------|
| 789,952 |
| <u><u>\$ 1,015,630</u></u> |

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

The minimum principal maturities of the debt outstanding are as follows:

| Year Ending December 31, | | |
|-----------------------------|----|------------------|
| 2016 | \$ | 327,430 |
| 2017 | | 106,672 |
| 2018 | | 111,829 |
| 2019 | | 117,237 |
| 2020 | | 122,905 |
| Thereafter | | 229,557 |
| | \$ | <u>1,015,630</u> |

Leases as Lessor

The Education Foundation entered into leases of space within its office building for a twelve month period ending December 31, 2015. The leases allow automatic renewal unless notification is provided by the tenant. The largest tenant of the building is the University. The Education Foundation recognized \$32,497 in rent revenue from these lease obligations of which \$12,497 was from the University.

The Education Foundation agreed to lease a building to the University for a ten month period ending June 30, 2015. The lease allows automatic renewal unless notification is provided by the tenant. The lease is for \$1 annually.

The Francis Marion University Development Foundation

As discussed in Note 1, The Development Foundation is operated for the benefit of the University to acquire and operate housing facilities and other real property. The FMU Student Housing, LLC (LLC), a single member limited liability company owned by the Development Foundation, leases all the University's on-campus housing, composed of fourteen apartment style facilities and six dormitory

style facilities having an aggregate of 1,112 beds and 8.96 acres of land for their 427 bed apartment complex. The lease agreement provides for the University to be paid any net available cash flow from the operation less any amount agreed upon by the University and the LLC. The determination of net available cash flow requires the LLC's annual audit to be completed with financial statements indicating a debt service coverage ratio of at least 1.25 and that all expenses, debt service, and deposits to the repair and replacement fund have occurred in accordance with bond documents. Rental income from housing operations for fiscal year 2016 is \$108,412, a portion of the advanced rent paid by the Development Foundation in 2004, and an additional rental payment of \$125,000 from available net cash flow. The Development Foundation records the prepayment as prepaid rent and the University records the advance as deferred housing revenue. These amounts are amortized over the life of the Development Foundation's 2004A bond issue.

A summary of other financial activities that occurred between the University and the Development Foundation for the year ended June 30, 2016, follows:

-
- a) The University collects as part of its student fee collection process student housing deposits, fees, and fines. All collections, excluding housing deposits, are remitted to the LLC. Collections due to the LLC at June 30, 2016, are \$312,665 and are included in due to Francis Marion University Development Foundation.

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

- b) The University provides the LLC management services related to the student housing facilities. This agreement continues for successive one year terms unless either the LLC or the University elects to terminate in writing. The negotiated fee is currently \$135,000. Under this agreement, the University pays for expenses related to the housing operation and summer repairs and is reimbursed by the LLC. The LLC pays the reimbursement in advance and at June 30, 2016 the unspent portion of \$660,303 was recorded as deposits held for Francis Marion University Development Foundation.
- c) Reimbursements for University employee time paid by the University on behalf of the Development Foundation were \$23,346. The University recorded these reimbursements as reductions of the applicable operating expenses.
- d) The Development Foundation paid \$300,553 for various items and contractual services on behalf of the University. The University recorded these gifts as \$22,920 in capital assets and \$277,633 in applicable operating expenses. The Development Foundation also made a cash donation to the University of \$562,010 for academic support.

Cash and Cash Equivalents

The Development Foundation considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. The Development Foundation maintains several bank accounts at two financial institutions. As of June 30, 2016, there were uninsured amounts at the institutions of \$5,976,156.

Property and Equipment

Property and equipment of the Development Foundation as of June 30, 2016, consists of the following:

| | |
|-------------------------------|-----------------------------|
| Building | \$ 17,068,086 |
| Signs | 20,000 |
| Furniture and equipment | 391,915 |
| Leasehold improvements | 572,315 |
| | <u>18,052,316</u> |
| Less accumulated depreciation | 4,903,015 |
| Property and equipment, net | <u><u>\$ 13,149,301</u></u> |

Depreciation expense for the year ended June 30, 2016, was \$450,714.

Bonds Payable

Pursuant to a loan agreement between the South Carolina Jobs – Economic Development Authority and the LLC, the Development Authority issued \$15,665,000 of SeriesA and \$335,000 of SeriesB bonds. The bonds were loaned to the LLC for purposes of acquiring a leasehold interest from the University in existing student housing, to provide funds for the acquisition, construction and furnishing

of a 237 bed student housing facility, to fund interest on the SeriesA and B bonds during the construction period, to fund the costs of marketing the housing facilities, to provide working capital for the facilities, to fund the SeriesA Debt Service Reserve Fund and to pay the costs of issuance of the SeriesA and B bonds.

On December 1, 2006, the loan agreement was amended to include the issuance of an additional \$10,465,000 of SeriesA bonds and \$280,000 of additional SeriesB bonds.

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

A summary of bonds payable as of June 30, 2016, is as follows:

| <u>Series</u> | <u>Original Face Amount</u> | <u>Interest Rates</u> | <u>Final Maturity Dates</u> | <u>Unpaid Principal Balance</u> |
|------------------------------------|-------------------------------------|---------------------------|-------------------------------------|---|
| 2006A | \$ 10,465,000 | 3.5 - 4.375 % | 8/1/2037 | \$ 9,150,000 |
| 2014A | 12,575,000 | 3.00 - 5.00 % | 8/1/2034 | 12,330,000 |
| Less unamortized discount on 2006A | | | | (146,656) |
| Plus unamortized premium on 2014A | | | | 677,216 |
| | | | | <u>\$ 22,010,560</u> |

The Series 2004A bonds matured and were refinanced on November 1, 2014, with the issuance of the Series 2014A bonds. The Series 2006A bonds maturing after August 1, 2017, are redeemable at the option of the issuer upon written request of the LLC on or after August 1, 2016, in whole or in part at a redemption price equal to 100% of the principal amount thereof plus accrued interest. The Series

2014A bonds maturing after August 1, 2025, are redeemable at the option of the issuer upon the written request of the LLC on or after August 1, 2024, in whole or in part at a redemption price of 100% of principal amount thereof plus accrued interest. Interest payments on all bonds are due semiannually.

Final maturities of bonds payable are as follows:

| <u>Year Ending June 30,</u> | <u>Series 2006A</u> | <u>Series 2014A</u> |
|---------------------------------|---------------------|----------------------|
| 2017 | \$ 260,000 | \$ 435,000 |
| 2018 | 270,000 | 445,000 |
| 2019 | 285,000 | 460,000 |
| 2020 | 295,000 | 475,000 |
| 2021 | 305,000 | 490,000 |
| 2022-2026 | 1,730,000 | 2,825,000 |
| 2027-2031 | 2,140,000 | 3,610,000 |
| 2032-2036 | 2,640,000 | 3,590,000 |
| 2037-2038 | 1,225,000 | - |
| | <u>\$ 9,150,000</u> | <u>\$ 12,330,000</u> |

Total interest expense during the year ended June 30, 2016, was \$871,303.

The Development Foundation has no obligation under this loan agreement.

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 15 – RISK MANAGEMENT

The University is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. Settlement claims have not exceeded this coverage in any of the past three years.

The State of South Carolina believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several state funds accumulate assets and the State itself assumes substantially all the risk for the following claims of covered employees:

- Unemployment compensation benefits
- Worker's compensation benefits for job-related illnesses or injuries
- Health and dental insurance benefits
- Long-term disability and group-life insurance benefits

Employees elect health insurance coverage through either a health maintenance organization or through the State's self-insured plan. The University and other entities pay premiums to the State's Insurance Reserve Fund (IRF), which issues

policies, accumulates assets to cover the risk of loss, and pays claims incurred for covered losses relating to the following activities:

- Theft, damage to, or destruction of assets
- Real property, its contents, and other equipment
- Motor vehicles and watercraft
- Torts
- Business interruptions
- Natural disasters
- Medical malpractice claims against covered employees

The IRF is a self-insurer and purchases reinsurance to obtain certain services and to limit losses in certain areas. The IRF's rates are determined actuarially.

The University obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation.

NOTE 16 – EXPENSES BY FUNCTION

Operating expenses by functional classification for the year ended June 30, 2016, are summarized as follows:

| | Salaries and Wages | Benefits | Supplies and other Services | Utilities | Scholarships | Depreciation | Total |
|---------------------------------------|--------------------------|----------------------|-----------------------------------|---------------------|---------------------|---------------------|----------------------|
| Instruction | \$ 17,434,025 | \$ 5,904,404 | \$ 2,190,293 | \$ 1,478 | \$ - | \$ - | \$ 25,530,200 |
| Research | 85,875 | 24,622 | 60,564 | - | - | - | 171,061 |
| Public service | 1,170,614 | 384,229 | 719,979 | 1,329 | - | - | 2,276,151 |
| Academic support | 2,078,149 | 766,266 | 1,849,543 | 1,941 | - | - | 4,695,899 |
| Student services | 2,974,474 | 1,119,403 | 1,793,653 | 7,734 | - | - | 5,895,264 |
| Institutional support | 3,669,817 | 1,404,892 | 1,143,439 | 50,477 | - | - | 6,268,625 |
| Operation and maintenance of plant | 3,537,023 | 1,557,525 | 3,774,924 | 1,971,908 | - | - | 10,841,380 |
| Depreciation | - | - | - | - | - | 3,069,443 | 3,069,443 |
| Scholarships | - | - | - | - | 3,900,157 | - | 3,900,157 |
| Auxiliary Enterprises | (9,307) | (3,190) | 1,007,377 | 148,310 | - | - | 1,143,190 |
| Total operating expenses | <u>\$ 30,940,670</u> | <u>\$ 11,158,151</u> | <u>\$ 12,539,772</u> | <u>\$ 2,183,177</u> | <u>\$ 3,900,157</u> | <u>\$ 3,069,443</u> | <u>\$ 63,791,370</u> |

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 17 – STATE APPROPRIATIONS

The following are the appropriations as enacted by the General Assembly and reported in the financial statements for the fiscal year ended June 30, 2016:

NON-CAPITAL APPROPRIATIONS

Current year's appropriations:

| | |
|---|---------------|
| Original appropriations per Annual Appropriations Act | \$ 13,488,037 |
|---|---------------|

Supplemental Appropriations

| | |
|-----------------------------|---------|
| Health and Dental Insurance | 103,396 |
|-----------------------------|---------|

| | |
|----------------------------|---------|
| \$800 Bonus Pay Allocation | 237,775 |
|----------------------------|---------|

From Commission on Higher Education:

| | |
|------------------------------------|-------|
| Academic Incentive Endowment Match | 4,436 |
|------------------------------------|-------|

| | |
|--------------------------------|---------|
| SCDE-Education Improvement Act | 350,000 |
|--------------------------------|---------|

| | |
|---|---------|
| SC Education Lottery - Technology Program | 298,035 |
|---|---------|

| | |
|---|----------------------|
| Total non-capital appropriations recorded as current year revenue | <u>\$ 14,481,679</u> |
|---|----------------------|

CAPITAL APPROPRIATIONS

Current year's capital appropriations

| | |
|--|------------|
| Capital Projects - Business/Education Building | \$ 100,000 |
|--|------------|

| | |
|--|-----------|
| Capital Projects - Student Academic System Computer Software | 1,500,000 |
|--|-----------|

| | |
|---|--------|
| SC Education Lottery - Deferred Maintenance | 76,276 |
|---|--------|

| | |
|---|---------------------|
| Total capital appropriations recorded as current year revenue | <u>\$ 1,676,276</u> |
|---|---------------------|

NOTE 18 – NONOPERATING FEDERAL GRANTS

Nonoperating Federal grants for the year ended June 30, 2016, are summarized as follows:

| | |
|-----------------------------------|---------------------|
| Federal Pell Grant Program - 2015 | \$ 14,335 |
| Federal Pell Grant Program - 2016 | 9,316,532 |
| Total | <u>\$ 9,330,867</u> |

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability
South Carolina Retirement System

| | <u>FY 2016</u> | <u>FY 2015</u> |
|--|-----------------------|-----------------------|
| University's proportion of the net pension liability | 0.267% | 0.267% |
| University's proportionate share of the net pension liability | \$ 50,695,304 | \$ 45,996,784 |
| University's covered-employee payroll | \$ 30,294,848 | \$ 29,363,903 |
| University's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 167.34% | 156.64% |
| Plan fiduciary net position as a percentage of the total pension liability | 57.0% | 59.9% |

Schedule of Proportionate Share of the Net Pension Liability
Police Officers Retirement System

| | <u>FY 2016</u> | <u>FY 2015</u> |
|--|-----------------------|-----------------------|
| University's proportion of the net pension liability | 0.047% | 0.048% |
| University's proportionate share of the net pension liability | \$ 1,024,407 | \$ 910,176 |
| University's covered-employee payroll | \$ 582,289 | \$ 571,819 |
| University's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 175.93% | 159.17% |
| Plan fiduciary net position as a percentage of the total pension liability | 64.6% | 67.5% |

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of University Contributions
South Carolina Retirement System

| | <u>FY 2016</u> | <u>FY 2015</u> |
|--|-----------------------|-----------------------|
| Contractually required contribution | \$ 2,760,486 | \$ 2,653,859 |
| Contribution in relation to the | | |
| Contractually required contribution | (2,760,486) | (2,653,859) |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> |
| University's covered employee payroll | \$ 18,610,265 | \$ 18,890,952 |
| Contributions as a portion of covered employee payroll | 14.83% | 14.05% |

Schedule of University Contributions
Police Officers Retirement System

| | <u>FY 2016</u> | <u>FY 2015</u> |
|--|-----------------------|-----------------------|
| Contractually required contribution | \$ 69,500 | \$ 78,085 |
| Contribution in relation to the | | |
| Contractually required contribution | (69,500) | (78,085) |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> |
| University's covered employee payroll | \$ 505,825.00 | \$ 582,289.00 |
| Contributions as a portion of covered employee payroll | 13.74% | 13.41% |

Independent Auditors' Report On Compliance
For Each Major Program And On Internal Control Over
Compliance Required By The Uniform Guidance

To the Honorable Nikki R. Haley,
Governor of the State of South Carolina
And to the Board of Trustees of
Francis Marion University
Florence, South Carolina

Report on Compliance for Each Major Federal Program

We have audited Francis Marion University's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Francis Marion University's major federal programs for the year ended June 30, 2016. Francis Marion University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of *Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Francis Marion University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Francis Marion University's compliance.

Opinion on Each Major Federal Program

In our opinion Francis Marion University complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2016.

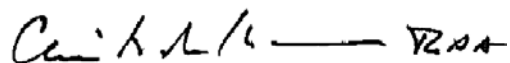
Report on Internal Control Over Compliance

Management of Francis Marion University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirement referred to above. In planning and performing our audit, we considered Francis Marion University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Francis Marion University's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Gaffney, SC
October 24, 2016

Independent Auditors' Report On Internal Control Over
Financial Reporting And On Compliance And Other Matters
Based On An Audit Of Financial Statements Performed
In Accordance With Government Auditing Standards

To the Honorable Nikki R. Haley,
Governor of the State of South Carolina
And to the Board of Trustees of
Francis Marion University
Florence, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit (Francis Marion University Development Foundation) of Francis Marion University, a discretely presented component unit of the State of South Carolina, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprised Francis Marion University's basic financial statements, and have issued our report thereon dated September 13, 2016. Our report includes a reference to other auditors who audited the financial statements of Francis Marion University Education Foundation, as described in our report on Francis Marion University's financial statements. The Francis Marion University Education Foundation's financial statements were not audited in accordance with *Government Auditing Standards*. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The Francis Marion University Development Foundation's financial statements were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Francis Marion University Development Foundation.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Francis Marion University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Francis Marion University's internal control. Accordingly, we do not express an opinion on the effectiveness of the Francis Marion University's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit by those charged with governance.

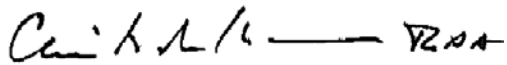
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Francis Marion University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Cynthia A. [unclear] CPA". The signature is written in a cursive, flowing style.

Gaffney, SC
October 24, 2016

FRANCIS MARION UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE PERIOD ENDED JUNE 30, 2016

| Federal Grantor/Program Title | Federal CFDA Number | Grant/Contract Number | Total Expenditures |
|---|---------------------------|--------------------------|-----------------------|
| Direct Programs: | | | |
| U.S. Department of Education | | | |
| Federal Supplemental Educational Opportunity Grant | 84.007 | P007A153784 | \$ 142,640 |
| Federal Direct Student Loans - 2016 | 84.268 | P268K163163 | \$ 26,333,002 |
| Federal Work-Study Program - 2016 | 84.033 | P033A153784 | 116,857 |
| Federal Perkins Loan Program - Federal Capital Contributions | 84.038 | P038A053784 | 1,936,845 |
| Federal Pell Grant Program - 2015 | 84.063 | P063P143163 | 14,335 |
| Federal Pell Grant Program - 2016 | 84.063 | P063P153163 | 9,316,531 |
| U.S. Department of Education | | | |
| Higher Education-Institutional Aid | 84.031P | P031P110031-14 | 250,000 |
| Higher Education-Institutional Aid | 84.031P | P031P110031-15 | 132,992 |
| U. S. Department of Health and Human Services | | | |
| Nurse Education, Practice, Quality & Retention-Veteran's BSN Program | 93.359 | UF1HP26985-01-00 | 2,063 |
| Nurse Education, Practice, Quality & Retention-Veteran's BSN Program | 93.359 | UF1HP26985-02-00 | 154,025 |
| National Science Foundation | | | |
| Education and Human Resources | R&D 47.076 | 1524493 | 16,996 |
| Biological Sciences | 47.074 | 1522209 | 18,743 |
| Total Direct Programs | | | <u>38,435,029</u> |
| Indirect Programs: | | | |
| National Aeronautics and Space Administration | | | |
| Passed through Science South, Inc. | | | |
| Education | 43.008 | NNX14AD05G | 24,094 |
| Passed through The College of Charleston | | | |
| Education | 43.008 | NNX15AL49H | 1,598 |
| Department of Defense - U.S. Army Medical Command | | | |
| Passed through Wayne State University | | | |
| Military Medical Research and Development | R&D 12.420 | W81XWH-11-1-0726 | 195 |
| U.S. Department of Education | | | |
| Passed Through South Carolina Commission on Higher Education | | | |
| Gaining Early Awareness & Readiness for Undergrad. Programs | 84.334S | P334S110019 | 154,688 |
| Passed Through South Carolina Department of Education | | | |
| State Personnel Development | 84.323A | H63010013312 | 16,412 |
| Passed Through South Carolina Department of Education | | | |
| Grants to States - Special Education | 84.027 | H63010100915 | 211,892 |
| Passed Through National Writing Project Corp. | | | |
| Improving Teacher Quality State Grants | 84.367D | 00-SC10-SEED2012 | 550 |
| Passed Through National Writing Project Corp. | | | |
| U. S. Department of Energy | | | |
| Passed Through Office of Nuclear Energy | | | |
| Nuclear Energy Research, Development and Demonstration | 81.121 | DE-NE0000100 | 15,000 |
| National Center for Research Resources (NCRR)/NIH | | | |
| Passed through the South Carolina Research Foundation and USC | | | |
| National Center for Research Resources | R&D 93.389 | 5P20GM103499-14 | 20,131 |
| Department of Health and Human Services | | | |
| Passed through University of South Carolina | | | |
| Biomedical Research and Research Training | R&D 93.859 | 2P20GM103499-15 | 134,126 |
| Passed through SC Developmental Disabilities Council | | | |
| Developmental Disabilities Basic Support and Advocacy Grants | 93.630 | 05-21-0001 | 29,327 |
| Passed through SC DHEC | | | |
| Assistance Programs for Chronic Disease Prevention and Control | 93.945 | 5U58DP004841-02 | 47 |
| Passed through SC DHHS | | | |
| See Notes to Schedule of Expenditures of Federal Awards. Purchase and Provision of Medical Assistance-Year 3 | 99.999 | | 1,198,110 |
| Total Indirect Programs | | | <u>1,806,170</u> |
| Total Federal Assistance | | | <u>\$ 40,241,199</u> |

FRANCIS MARION UNIVERSITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2016

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Francis Marion University and is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A – 133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR FEDERAL AWARD EXPENDITURES

Expenditures for student financial aid programs include the federal share of students' Federal Supplemental Educational Opportunity Grant (FSEOG) program grants and Federal Work Study (FWS) program earnings, certain other federal financial aid for students and administrative cost allowances, where applicable.

NOTE 3 – LOAN PROGRAMS

The Direct Loan program provides loans to students and their parents. The loans are made directly from the federal government; therefore there is no loan balance recorded at the University. The totals of loans processed for the current fiscal year are:

| | |
|------------------------------------|-----------------------------|
| Direct Student Loan - Subsidized | \$ 8,921,292 |
| Direct Student Loan - Unsubsidized | 12,811,140 |
| PLUS | <u>4,600,570</u> |
| Total | <u><u>\$ 26,333,002</u></u> |

The Federal Perkins Loan Program is administered directly by the University and balances and transactions relating to the program are included in the University's financial statements. The balance of loans outstanding under the Federal Perkins Loan program was \$1,621,301 as of June 30, 2016. The expenditures for June 30, 2016 are calculated as follows:

| | |
|----------------------------|----------------------------|
| June 30, 2015 loan balance | \$ 1,641,763 |
| Current year loans made | <u>295,082</u> |
| Total | <u><u>\$ 1,936,845</u></u> |

FRANCIS MARION UNIVERSITY
Summary Schedule Of Prior Audit Findings
June 30, 2016

Findings Relating to the Financial Statements:

There were no findings relating to the financial statements.

Findings and Questioned Costs Relating to Federal Awards:

There were no findings and questioned costs relating to federal awards.

FRANCIS MARION UNIVERSITY
Schedule of Findings and Questioned Costs
June 30, 2016

Summary of Auditor's Results:

1. An unmodified opinion was issued on Francis Marion University's basic financial statements dated October 24, 2016.
2. There were no material weaknesses or significant deficiencies relating to the financial statements reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements performed in accordance with *Government Auditing Standards*.
3. There were no instances of noncompliance material to the financial statements of Francis Marion University disclosed during the audit.
4. The auditors' report on compliance for the major federal award programs for Francis Marion University expresses an unmodified opinion
5. There were no material weaknesses or significant deficiencies relating to the audit of major federal awards reported in the Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance required by the Uniform Guidance.
6. There were no audit findings reported relative to the major federal award programs for Francis Marion University as depicted below in this schedule.
7. Major federal programs:
 - Student Financial Aid Cluster from the U.S. Department of Education
 - Federal Supplemental Education Opportunity Grants CFDA #84.007
 - Federal Work-Study Programs CFDA #84.033
 - Federal Perkins Loans CFDA #84.038
 - Federal PELL Grant Program CFDA #84.063
 - Federal Direct Loan Program CFDA #84.268
 - Higher Education-Institutional Aid from the U.S. Department of Education CFDA #84.031
8. The threshold for distinguishing between Type A and Type B Program was \$750,000.
9. Francis Marion University is a low-risk auditee according to the criteria in Title 2 U.S. Code of *Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Findings Relating to the Financial Statements:

There were no findings relating to the financial statements.

Findings and Questioned Costs Relating to Federal Awards:

There were no findings and questioned costs relating to federal awards.